ECONOMIC PREVIEW

REGIONS

Week of January 25, 2016

Indicator/Action Economics Survey: | Last Actual: | Regions' View:

Fed Funds Rate: Target Range Midpoint
(After the FOMC meeting on January 26-27):
Target Range Midpoint: 0.375 to 0.375 percent
Median Target Range Midpoint: 0.375 percent

Last Actual: 0.375%

The FOMC meeting may be the highlight of the week but the Committee will likely lay low. A follow-up hike in the Fed funds rate was never in the cards for this meeting, and with no post-meeting press conference the policy statement will be carefully scrutinized. While likely to note they are monitoring financial and global developments, the FOMC's assessment of economic conditions will be little changed. This will allow the FOMC to keep March in play as the timing of the next rate hike, however much that outcome is discounted by the markets.

January Consumer Confidence Index — Tuesday, 1/26
Range: 91.0 to 100.0
Median: 96.1

Last Actual: Dec = 96.5

Down to 95.6, but there isn't a lot of conviction behind this call. Trying to gauge the collective mood of U.S. consumers is a fool's errand in the best of times but even more so in the midst of the kind of sharp declines in equity prices seen in recent weeks. Early-month surveys didn't show any deterioration in sentiment but were taken before the worst of the financial market turmoil, i.e., before the days on which financial talk TV decided it would be a good idea to cancel all commercials in order to broadcast the panic nonstop. In any event, we've built in a decline in the present conditions component but expect the more heavily weighted expectations component to be little changed.

December New Home Sales — Wednesday, 1/27
Range: 489,000 to 525,000 units
Median: 505,000 units SAAR

Last Actual: Nov = 490,000

Up to an annual sales rate of 507,000 units. Our call would leave sales at 494,000 for 2015 as a whole, pending the inevitable revisions. This would be the "best" year for new home sales since 2007 – we trust the quotation marks around the word best are self-explanatory. Notwithstanding what should be modestly higher inventories of new homes for sale, inventories remain a constraint on sales. As has been the case for some time now we also look for higher priced homes to account for an above-normal share of total new home sales. As we've noted in our discussions of single family housing starts, we look for further improvement in new home sales in 2016 but our forecast is once again below consensus.

December Durable Goods Orders — Thursday, 1/28
Range: -4.0 to 1.5 percent
Median: -0.2 percent

Last Actual: Nov = 0.0%

Up by 0.8 percent thanks mainly to a surge in nondefense aircraft orders. Elsewhere, though, the data will be pretty much of a wash – we look for ex-transportation orders to be up 0.2 percent.

Q4 2015 Real GDP – 1st estimate — Friday, 1/29
Range: 0.0 to 1.7 percent
Median: 0.8 percent SAAR

Last Actual: Q3 = +2.0%

Up at an annualized rate of 0.9 percent. Inventories will be a major drag on top-line growth with trade a lesser drag. As we frequently note, these are the two factors responsible for most of the quarter-to-quarter swings in real GDP growth, and for a better indication of the economy's underlying health we look to real private domestic demand, which we expect to have grown at an annual rate of around 2.4 percent in Q4. We'll also toss in our usual caveat that the BEA's initial estimate of GDP growth in any given quarter is based on highly incomplete source data and, as such, is prone to large revisions as additional source data become available. That said, our call on the first estimate would leave real GDP up 2.4 percent for 2015 as a whole, pretty much in line with the trend rate of growth since the end of the 2007-09 recession. We expect this to also be the case for 2016 as what is already the fourth longest post WWII expansion, while prone to the occasional misstep, trudges forward. Or, as we prefer to put it, the current expansion is old but hasn't done a lot of living.

Q4 2015 GDP Price Index – 1st estimate — Friday, 1/29
Range: 0.2 to 1.3 percent
Median: 0.9 percent SAAR

Last Actual: Q3 = +1.3%

Up at an annualized rate of 0.8 percent.

Q4 2015 Employment Cost Index — Friday, 1/29
Range: 0.4 to 0.7 percent
Median: 0.6 percent

Last Actual: Q3 = +0.6%

Up by 0.6 percent, with the wage component up by 0.6 percent and the benefits component up by 0.5 percent. On an over-the-year basis this would leave the total ECI up 2.0 percent, the wage component up 2.1 percent, and the benefits component up 1.7 percent. The 2.1 percent increase for 2015 as a whole would match that seen in 2014, but the composition of growth will differ, with the wage component up 2.2 percent in 2015 after a 1.9 percent increase in 2014 while growth in the benefits component slowed to 1.9 percent from 2.5 percent in 2014.

If our call is correct, 2015 will have been the first year since 2009 in which the wage component of the ECI grew faster than the benefits component. To some degree this reflects tighter labor market conditions, but we think a more significant factor is firms passing off a greater share of health insurance costs to employees. Either way, though, growth in total employment costs remains tame and while growth in the wage component of the ECI will accelerate further in 2016 it will still remain below what we would see in a fully healthy labor market.

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